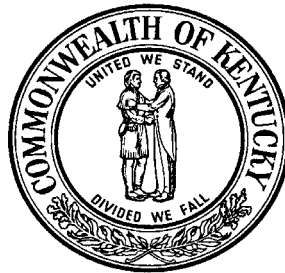


**REPORT OF THE AUDIT OF THE  
WASHINGTON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable John A. Settles, Washington County Judge/Executive  
Members of the Washington County Fiscal Court

The enclosed report prepared by Noel C. Turner, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Noel C. Turner, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Noel C. Turner, PSC evaluated the Washington County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
WASHINGTON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**

Noel C. Turner, PSC has completed the audit of the Washington County Fiscal Court for fiscal year ended June 30, 2005. I have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information financial statements of Washington County, Kentucky.

**Financial Condition:**

The fiscal court had total net assets of \$3,094,507 as of June 30, 2005. Of the total net assets, the fiscal court had unrestricted net assets of \$1,311,004 as of June 30, 2005. The fiscal court had total capital financing obligations as of June 30, 2005 of \$637,533 with \$126,687 due within the next year.

**Report Comment:**

- 2005-1 - Lack of segregation of duties – Occupational license taxes
- 2005-2 - General Fund total expenditures budget overspent

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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America Counts on CPAs

**NOEL C. TURNER, PSC**  
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Kentucky Society of Certified  
Public Accountants

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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable John A. Settles, Washington County Judge/Executive  
Members of the Washington County Fiscal Court

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Washington County Fiscal Court. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, Washington County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable John A. Settles, Washington County Judge/Executive  
Members of the Washington County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, I did not audit it and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated January 24, 2006, on my consideration of Washington County, Kentucky's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Based on the results of my audit, I present the accompanying comments and recommendations, included herein, which discusses the following report comment:

- 2005-1 - Lack of segregation of duties – Occupational license taxes
- 2005-2 - General Fund total expenditures budget overspent

*Noel C. Turner, PSC*

Harrodsburg, Kentucky

Audit fieldwork completed -  
January 24, 2006

## WASHINGTON COUNTY OFFICIALS

For The Year Ended June 30, 2005

**Fiscal Court Members:**

John A. Settles	County Judge/Executive
Simeon Cambron	Magistrate
Ernest Reed Goff	Magistrate
Hal B. Goode	Magistrate
Billy Riney, Jr.	Magistrate
Greg Simms	Magistrate
Terry L. Tingle	Magistrate

**Other Elected Officials:**

Hamilton B. Simms	County Attorney
Steve Hardin	Jailer
Glenn Black	County Clerk
George Graves	Circuit Court Clerk
Tommy Bartley	Sheriff
Margaret Platt	Property Valuation Administrator
Freddie Carey	Coroner

**Appointed Personnel:**

Carla D. Hardin	County Treasurer
Carla D. Hardin	Occupational Tax Collector
Sheila D. Smith	Finance Officer
Fred Armstrong	911 Administrator

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**WASHINGTON COUNTY  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**WASHINGTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u><b>Primary Government Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,320,437
Due from Other Agencies	41,687
Total Current Assets	<u>1,362,124</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation:	
Historical Treasures	8,000
Land & Land Improvements	312,266
Buildings & Improvements	623,513
Machinery & Equipment	149,695
Office Furniture	5,192
Vehicles	259,757
Infrastructure	817,080
Total Capital Assets	<u>2,175,503</u>
Due from Other Agencies	203,846
Total Noncurrent Assets	<u>2,379,349</u>
Total Assets	<u>3,741,473</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	126,687
Payroll Taxes Payable	9,433
Total Current Liabilities	<u>136,120</u>
Noncurrent Liabilities:	
Financing Obligations Payable	510,846
Total Noncurrent Liabilities	<u>510,846</u>
Total Liabilities	<u>646,966</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,783,503
Unrestricted	1,311,004
Total Net Assets	<u><u>\$ 3,094,507</u></u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**WASHINGTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,032,560		\$ 110,735	
Protection to Persons and Property	1,093,951	441,798	134,183	
General Health and Sanitation	209,541			
Social Services	24,123			
Recreation and Culture	27,150			
Transportation Facilities and Services	4,326			
Roads	674,698		765,109	470,596
Intererst paid on Financing Obligations	12,774			
Bus Services	23,562			
Capital Projects	83,573			
Total Governmental Activities	3,186,258	441,798	1,010,027	470,596
Total Primary Government	\$ 3,186,258	\$ 441,798	\$ 1,010,027	\$ 470,596

**General Revenues:**

Taxes:  
     Real Property Taxes  
     Insurance Premium Taxes  
     Motor Vehicle Taxes  
     Occupational taxes  
     Other Taxes  
 Excess Fees  
 Licenses and Permits  
 Unrestricted Investment Earnings  
 Building Rental  
 Miscellaneous Revenues  
 Gain on Sale of Capital Assets  
  
 Total General Revenues  
 Change in Net Assets  
 Net Assets - Beginning  
  
 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**WASHINGTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Primary Government</b>	
<b>Governmental Activities</b>	<b>Totals</b>
\$ (921,825)	\$ (921,825)
(517,970)	(517,970)
(209,541)	(209,541)
(24,123)	(24,123)
(27,150)	(27,150)
(4,326)	(4,326)
561,007	561,007
(12,774)	(12,774)
(23,562)	(23,562)
(83,573)	(83,573)
<u>(1,263,837)</u>	<u>(1,263,837)</u>
<u><u>\$ (1,263,837)</u></u>	<u><u>\$ (1,263,837)</u></u>

279,264	279,264
569,923	569,923
43,548	43,548
688,727	688,727
134,152	134,152
5,663	5,663
26,943	26,943
16,456	16,456
6,652	6,652
111,868	111,868
22,326	22,326
<u>1,905,522</u>	<u>1,905,522</u>
641,685	641,685
<u>2,452,822</u>	<u>2,452,822</u>
<u><u>\$ 3,094,507</u></u>	<u><u>\$ 3,094,507</u></u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**



**WASHINGTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 824,356	\$ 463,851	\$ 32,230	\$ 1,320,437
Total assets	<u>\$ 824,356</u>	<u>\$ 463,851</u>	<u>\$ 32,230</u>	<u>\$ 1,320,437</u>
<b>LIABILITIES</b>				
Payroll taxes payable	\$ 9,433			\$ 9,433
Total Liabilities	<u>\$ 9,433</u>			<u>\$ 9,433</u>
<b>FUND BALANCES</b>				
Unreserved:				
General Fund	\$ 814,923			\$ 814,923
Special Revenue Fund		\$ 463,851	\$ 32,230	496,081
Total Fund Balances	<u>\$ 814,923</u>	<u>\$ 463,851</u>	<u>\$ 32,230</u>	<u>\$ 1,311,004</u>
 Total Liabilities and Fund Balances	 <u>\$ 824,356</u>	 <u>\$ 463,851</u>	 <u>\$ 32,230</u>	 <u>\$ 1,320,437</u>
Total Fund Balances				\$ 1,311,004
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:				
Due from Other Agencies is not receivable in the current period and therefore is not reported in the funds				245,533
Capital Assets Used in Governmental Activities are not financial resources and therefore are not reported in the funds				3,177,266
Accumulated Depreciation				(1,001,763)
Financing obligations are not due and payable in the current period and therefore are not reported in the funds				<u>(637,533)</u>
Net Assets Of Governmental Activities				<u>\$ 3,094,507</u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**WASHINGTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,715,614	\$	\$	\$ 1,715,614
Excess Fees	5,663			5,663
Licenses and Permits	26,943			26,943
Intergovernmental	198,112	1,166,071	116,440	1,480,623
Charges for Services	441,638		160	441,798
Miscellaneous	127,530	11,708	4,666	143,904
Interest	14,523	1,933		16,456
Total Revenues	<u>2,530,023</u>	<u>1,179,712</u>	<u>121,266</u>	<u>3,831,001</u>
<b>EXPENDITURES</b>				
General Government	557,348			557,348
Protection to Persons and Property	834,847		223,277	1,058,124
General Health and Sanitation	206,587			206,587
Social Services	17,067			17,067
Recreation and Culture	24,908	2,242		27,150
Roads		1,173,029	75,469	1,248,498
Transportation Facilities and Services		4,326		4,326
Bus Services	23,562			23,562
Capital Projects	312,000	83,573		395,573
Debt Service:				
Principal	25,383	50,000		75,383
Interest	12,384	390		12,774
Administration	366,975	72,805	16,767	456,547
Total Expenditures	<u>2,381,061</u>	<u>1,386,365</u>	<u>315,513</u>	<u>4,082,939</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>148,962</u>	<u>(206,653)</u>	<u>(194,247)</u>	<u>(251,938)</u>
<b>Other Financing Sources (Uses)</b>				
Financing Obligations	487,000	135,000		622,000
Proceeds from Sale of Capital Assets		95,790		95,790
Financing Obligations paid to Other Entities	(180,000)			(180,000)
Transfers From Other Funds			193,000	193,000
Transfers To Other Funds	(193,000)			(193,000)
Total Other Financing Sources (Uses)	<u>114,000</u>	<u>230,790</u>	<u>193,000</u>	<u>537,790</u>
Net Change in Fund Balances	262,962	24,137	(1,247)	285,852
Fund Balances - Beginning	551,961	439,714	33,477	1,025,152
Fund Balances - Ending	<u>\$ 814,923</u>	<u>\$ 463,851</u>	<u>\$ 32,230</u>	<u>\$ 1,311,004</u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**WASHINGTON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	285,852
--	----	---------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		988,858
Depreciation Expense		(167,560)

In the statement of activities, only the gain on the sale of capital assets is reported, whereas, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the depreciated cost of the capital asset sold.		(73,463)
---	--	----------

Financing obligation proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(622,000)
---	--	-----------

Financing obligation proceeds paid to other Entities included in above for which the fiscal court is to be reimbursed from other agencies and is included in notes receivable in the government-wide financial statements		180,000
---	--	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.		
Financing Obligations Repaid		75,382

The repayment of funds due from other agencies provides current financial resources to governmental funds, while the repayment of those at the government-wide level reduces the amount due from agencies and the corresponding debt incurred by the county on behalf of the entity.		
Repayment from other Agencies for Debt Incurred by County		(25,384)

Change in Net Assets of Governmental Activities	\$	641,685
---	----	---------

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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**WASHINGTON COUNTY  
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances, when applicable, are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Washington County include only the funds of the primary government. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, GASB 14 as amended by GASB 39, is determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity could include organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. There are no component units requiring inclusion in this audit.

**C. Washington County Elected Officials Not Part Of Washington County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Washington County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Washington County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The primary government does not have any business-type activities nor fiduciary funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

**Governmental Funds**

Separate fund financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Road Fund - This fund is for road construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, and Jail Fund.

Special Revenue Funds:

The Road Fund, Jail Fund and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, construction in progress, and historical treasures are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 10,000	3-25
Office Furniture	\$ 2,500	2-10
Vehicles	\$ 10,000	3-25
Infrastructure	\$ 15,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable financial statements.

In the fund financial statements, governmental fund types recognize bond discounts and premiums, bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However encumbrances, if applicable, are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. During the current fiscal year expenditures for capital projects exceeded the budget in the General Fund by \$282,000. This General Fund budget variance is due to purchases made at the end of the fiscal year which were funded with loan proceeds but for which the expenditures were not budgeted.

**J. Related Organization and Jointly Governed Organization**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Washington County Library is considered a related organization of the Washington County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Springfield-Washington County Economic Development Authority is considered a jointly governed organization of the Washington County Fiscal Court.

**Note 2. Deposits**

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

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**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 212,266	\$ 100,000	\$	\$ 312,266
Historical Treasures	8,000			8,000
Total Capital Assets Not Being Depreciated	220,266	100,000		320,266
Capital Assets, Being Depreciated:				
Buildings & Improvements	816,114	212,000		1,028,114
Machinery & Equipment	332,274	29,500		361,774
Office Furniture	6,628			6,628
Vehicles	476,460	176,762	(81,601)	571,621
Infrastructure	418,267	470,596		888,863
Total Capital Assets Being Depreciated	2,049,743	888,858	(81,601)	2,857,000
Less Accumulated Depreciation For:				
Buildings & Improvements	(380,206)	(24,395)		(404,601)
Machinery & Equipment	(184,654)	(27,425)		(212,079)
Office Furniture	(110)	(1,326)		(1,436)
Vehicles	(259,941)	(60,059)	8,136	(311,864)
Infrastructure	(17,428)	(54,355)		(71,783)
Total Accumulated Depreciation	(842,339)	(167,560)	8,136	(1,001,763)
Total Capital Assets, Being Depreciated, Net	1,207,404	721,298	(73,465)	1,855,237
Governmental Activities Capital Assets, Net	<u>\$ 1,427,670</u>	<u>\$ 821,298</u>	<u>\$ (73,465)</u>	<u>\$ 2,175,503</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 18,665
Protection to Persons and Property	35,827
General Health and Sanitation	2,954
Social Services	7,056
Roads	<u>103,058</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 167,560</u>



**Note 4.     Financing Obligations**

The Washington County Fiscal Court has seven lease agreements that are outstanding as of June 30, 2005. Items A., B., C., D., and E. are entered into on behalf of other entities. For item A. below, the other entity makes the payments directly to the trustee. For items B., C., D., and E. below, the Fiscal Court makes the payments to the trustee and is simultaneously reimbursed by the other entities. The remaining lease agreements are for assets purchased and used by the Fiscal Court.

**A.   Mackville Fire Department - Fire Truck**

On November 26, 1997, the fiscal court on behalf of the Mackville Fire Department entered into an agreement with the Kentucky Area Development Districts Financing Trust (KADD) in the amount of \$75,000 at an interest rate of 6.20% for the acquisition of a fire truck. On November 12, 2003, KADD revised the terms of this agreement. The revised agreement increased the outstanding principal due by \$4,000, from \$68,000 to \$72,000 and lowered the effective interest rate to 3.16%. This revision created debt service savings of \$4,767 over the remaining term of the obligation. The Mackville Fire Department makes the principal and interest payments to the Bank of New York (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	\$     1,927	\$     5,000
2007	1,782	6,000
2008	1,609	49,000
Totals	<u>\$     5,318</u>	<u>\$     60,000</u>

**B.   Washington County Fire Department - Fire Truck**

On February 15, 2005, the fiscal court on behalf of the Washington County Fire Department entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$100,000 at an interest rate of 3.05% for the acquisition of a fire truck. The term is for 54 months with the balance to be paid in full on July 20, 2009. During the fiscal year, the county received \$1,432 in interest from the Washington County Fire Department. The county then paid the debt service payments to U.S. Bank (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

**Note 4. Financing Obligations (Continued)**

**B. Washington County Fire Department - Fire Truck (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	\$ 3,142	\$ 20,000
2007	2,379	20,000
2008	1,620	20,000
2009	859	20,000
2010	67	20,000
Totals	<u>\$ 8,067</u>	<u>\$ 100,000</u>

**C. Washington County Rescue Squad - Rescue Vehicle**

On February 10, 1999, the fiscal court on behalf of the Washington County Rescue Squad entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$50,000 at an interest rate of 4.10% for the acquisition of a rescue truck. The term is for 7 years with the balance to be paid in full on January 20, 2006. During the fiscal year, the county received \$7,261 in interest and principal from the Washington County Rescue Squad. The county then paid the debt service payments to J.P. Morgan (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	30	1,000
Totals	<u>\$ 30</u>	<u>\$ 1,000</u>

**D. Willisburg Fire Department - Rescue Vehicle**

On June 11, 2003, the fiscal court on behalf of the Willisburg Fire Department entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$25,000 at a variable interest rate (currently 2.75%) for the acquisition of a rescue truck. The term is for three years with the balance to be paid in full on January 20, 2006. During the fiscal year, the county received \$10,180 in principal and interest from the Willisburg Fire Department. The county then paid the debt service payments to U.S. Bank (the trustee). Principal payment requirements and scheduled interest for the term of the agreement are as follows:

**Note 4. Financing Obligations (Continued)**

**D. Willisburg Fire Department - Rescue Vehicle (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	172	8,582
Totals	\$ 172	\$ 8,582

**E. Mackville Fire Department - Rescue Vehicle**

On October 20, 2004, the fiscal court on behalf of the Mackville Fire Department entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$80,000 at a variable interest rate (currently 2.75%) for the acquisition of a rescue truck. The term is for ten years with the balance to be paid in full on November 20, 2014. During the fiscal year, the county received \$5,672 in principal and interest from the Mackville Fire Department. The county then paid the debt service payments to U.S. Bank (the trustee). Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	\$ 2,578	\$ 7,105
2007	2,324	7,317
2008	2,067	7,535
2009	1,797	7,760
2010	1,521	7,991
Thereafter	3,202	38,243
Totals	\$ 13,489	\$ 75,951

**F. Mack Dump Truck**

On March 10, 2005, the fiscal court entered into an agreement with the Kentucky Area Development Districts Financing Trust (KADD) in the amount of \$85,000 at an interest rate of 3.0% for the acquisition of a Mack Dump Truck. The term is for thirteen months with the balance to be paid in full on April 1, 2006. Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

**Note 4. Financing Obligations (Continued)**

**F. Mack Dump Truck (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	2,699	85,000
Totals	\$ 2,699	\$ 85,000

**G. Bank Building and Land**

On June 3, 2005, the fiscal court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$307,000 for the acquisition of the BB&T Bank building and land in Springfield, Kentucky. The term is for 24 months with the balance to be paid in full on June 20, 2007. Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2006	\$ 16,214	\$
2007	15,048	307,000
Totals	\$ 31,262	\$ 307,000

**H. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
KADD Financing Obligations	\$ 66,000	\$ 135,000	\$ 56,000	\$ 145,000	\$ 90,000
KACO Financing Obligations	24,916	487,000	19,383	492,533	36,687
Governmental Activities					
Long-term Liabilities	\$ 90,916	\$ 622,000	\$ 75,383	\$ 637,533	\$ 126,687

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

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**Note 4. Financing Obligations (Continued)**

**I. Short-term Debt**

In July 2004, Washington County Fiscal Court participated in the Kentucky Association of Counties Advance Revenue Program by issuing a note in the amount of \$617,500, with principal being due in January 2005. The Fiscal Court did not receive the borrowed funds but allowed the proceeds to be invested on behalf of the fiscal court by KARP administrators. Net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program amounted to \$1,896 (\$8,639 gross less interest expense of \$6,743).

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Anticipation Note	\$	\$ 617,500	\$ 617,500	\$	\$
Governmental Activities					
Short-term Liabilities	\$ 0	\$ 617,500	\$ 617,500	\$ 0	\$ 0

**Note 5. Due From Other Agencies**

The county has receivables due from the entities for which the county has incurred debt on their behalf. Payments received from these agencies are used to pay off the debt (see Note 4). The total due from other agencies is \$245,533 and includes amounts due from:

**Due from other agencies**

Mackville Fire Department	\$ 60,000
Washington County Fire Department	100,000
Washington County Rescue Squad	1,000
Willisburg Fire Department	8,582
Mackville Fire Department	75,951
Total	\$ 245,533

**Note 6. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

**Note 6. Employee Retirement System (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

The Washington County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862.

**Note 8. Insurance**

For the fiscal year ended June 30, 2005, Washington County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Interfund Transfers**

During the fiscal year, the county made a transfer from the General Fund to the Jail Fund in the amount of \$193,000.

**Note 10. Subsequent Events**

On September 15, 2005, the fiscal court was notified by letter from the Commonwealth of Kentucky Transportation Cabinet that it had been awarded a Federal grant of up to \$520,800 to replace the Hardesty Road Bridge located in Washington County.

**WASHINGTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**





**WASHINGTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

GENERAL FUND					
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
Taxes	\$ 1,424,100	\$ 1,442,611	\$ 1,715,614	\$ 273,003	
Excess Fees	9,021	9,021	5,663	(3,358)	
Licenses and Permits	24,260	24,260	26,943	2,683	
Intergovernmental Revenue	181,650	181,650	198,112	16,462	
Charges for Services	350,000	350,000	441,638	91,638	
Miscellaneous	62,000	230,676	119,597	(111,079)	
Interest	5,700	5,700	14,523	8,823	
Total Revenues	2,056,731	2,243,918	2,522,090	278,172	
EXPENDITURES					
General Government	625,387	638,321	557,348	80,973	
Protection to Persons and Property	850,360	896,743	834,847	61,896	
General Health and Sanitation	183,287	220,764	206,587	14,177	
Social Services	19,500	21,600	17,067	4,533	
Recreation and Culture	24,000	24,908	24,908	-	
Bus Services	20,000	23,562	23,562	-	
Capital Projects	30,000	30,000	312,000	(282,000)	
Debt Service	16,500	24,100	29,834	(5,734)	
Administration	434,668	393,887	366,975	26,912	
Total Expenditures	2,203,702	2,273,885	2,373,128	(99,243)	
Excess (Deficiency) of Revenues					
Over Expenditures Before Other	(146,971)	(29,967)	148,962	178,929	
Financing Sources (Uses)					
OTHER FINANCING SOURCES (USES)					
Financing Obligation Proceeds			487,000	487,000	
Financing Obligation Proceeds to Other Entities		(180,000)	(180,000)	-	
Transfers To Other Funds	(313,029)	(313,029)	(193,000)	120,029	
Total Other Financing Sources (Uses)	(313,029)	(493,029)	114,000	607,029	
Net Changes in Fund Balances	(460,000)	(522,996)	262,962	785,958	
Fund Balances - Beginning	460,000	522,996	551,961	28,965	
Fund Balances - Ending	\$ 0	\$ 0	\$ 814,923	\$ 814,923	

**WASHINGTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>ROAD FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 842,185	\$ 1,126,261	\$ 1,166,071	\$ 39,810
Miscellaneous	6,100	6,100	11,708	5,608
Interest	2,650	2,650	1,933	(717)
Total Revenues	850,935	1,135,011	1,179,712	44,701
<b>EXPENDITURES</b>				
Recreation and Culture	15,000	15,000	2,242	12,758
Roads	830,850	1,311,129	1,173,029	138,100
Transportation Facilities and Services	16,410	5,490	4,326	1,164
Capital Projects	60,000	83,600	83,573	27
Debt Service		50,400	50,390	10
Administration	243,675	107,790	72,805	34,985
Total Expenditures	1,165,935	1,573,409	1,386,365	187,044
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(315,000)	(438,398)	(206,653)	231,745
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets			95,790	95,790
Financing Obligation Proceeds			135,000	135,000
Total Other Financing Sources (Uses)	-	-	230,790	230,790
Net Changes in Fund Balances	(315,000)	(438,398)	24,137	462,535
Fund Balances - Beginning	315,000	439,398	439,714	316
Fund Balances - Ending	\$ 0	\$ 1,000	\$ 463,851	\$ 462,851

**WASHINGTON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. During the current fiscal year expenditures for capital projects exceeded the budget in the General Fund by \$282,000. This General Fund budget variance is due to purchases made at the end of the fiscal year which were funded with loan proceeds but for which the expenditures were not budgeted.

**2.**

**Reconciliation of the Budgetary Comparison Schedule - General Fund  
to the Statement of Revenues, Expenditures, and Changes  
in Fund Balance - Governmental Funds**

Total Revenues - Budgetary Basis	\$ 2,522,090
Add: Debt payments made directly to KADD by Mackville Fire Department	<u>7,933</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 2,530,023</u></u>
Total Expenditures - Budgetary Basis	\$ 2,373,128
Add: Debt Service Payments to KADD	<u>7,933</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 2,381,061</u></u>

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**WASHINGTON COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2005**



**WASHINGTON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>Local Government Economic Assistance Fund</b>	<b>Jail Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 25,517	\$ 6,713	\$ 32,230
Total assets	<u>\$ 25,517</u>	<u>\$ 6,713</u>	<u>\$ 32,230</u>
<b>FUND BALANCES</b>			
Unreserved:			
Special Revenue Funds	\$ 25,517	\$ 6,713	\$ 32,230
Total Fund Balances	<u>\$ 25,517</u>	<u>\$ 6,713</u>	<u>\$ 32,230</u>

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**WASHINGTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**



**WASHINGTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>Local Government Economic Assistance Fund</b>	<b>Jail Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental	\$ 69,634	\$ 46,806	\$ 116,440
Charges for Services		160	160
Miscellaneous		4,666	4,666
Total Revenues	<u>69,634</u>	<u>51,632</u>	<u>121,266</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property		223,277	223,277
Roads	75,469		75,469
Administration		16,767	16,767
Total Expenditures	<u>75,469</u>	<u>240,044</u>	<u>315,513</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,835)</u>	<u>(188,412)</u>	<u>(194,247)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers From Other Funds		193,000	193,000
Total Other Financing Sources (Uses)		<u>193,000</u>	<u>193,000</u>
Net Change in Fund Balances	(5,835)	4,588	(1,247)
Fund Balances - Beginning	31,352	2,125	33,477
Fund Balances - Ending	<u>\$ 25,517</u>	<u>\$ 6,713</u>	<u>\$ 32,230</u>

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## **COMMENTS AND RECOMMENDATIONS**



**WASHINGTON COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2005**

**CURRENT YEAR COMMENTS**

**REPORTABLE CONDITION AND INTERNAL CONTROL MATERIAL WEAKNESS**

**2005-1 - Lack of segregation of duties – Occupational license taxes**

During inquires with the county treasurer, we noted internal control weaknesses with regard to the processing of occupational license taxes. During FY 2004, Occupational license tax duties were administered by a person separate from the County Treasurer. Beginning July 2004, the treasurer is solely responsible for setting up new business accounts, receiving the returns, and depositing the collected license taxes. We recommend that the Fiscal Court designate a person other than the treasurer to open the mail and maintain a record of cash receipts prior to forwarding to the county treasurer for processing.

*County Judge/Executive John A. Settles' Response:*

*A new part-time employee was hired in August 2005. Among her duties are to open the mail and maintain a record of cash receipts of occupational tax revenue.*

**NONCOMPLIANCES**

**2005-2 – General Fund total expenditures budget overspent**

During the fiscal year ending 6/30/2005, the Washington County Fiscal Court overspent the General Fund total expenditures budget by \$99,243. There was not a budget amendment completed and submitted to Governor's Office of Local Development as required by KRS 68.260 and 68.280.

*County Judge/Executive John A. Settles' Response:*

*The actual General Fund Budget was not overspent, but contained a surplus. The discrepancy occurred when a budget amendment was not prepared for money that never flowed through the treasury. The oversight was for money borrowed from KACo to purchase real estate. We were unaware of the need to amend the budget for items that are not cash receipts or cash disbursements. Such transactions will be amended into the budget in the future.*

**PRIOR YEAR COMMENT**

**Financial Reporting System Deficiencies**

This comment has been corrected

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





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Kentucky Society of Certified  
Public Accountants

Honorable John A. Settles, Washington County Judge/Executive  
Members of the Washington County Fiscal Court

**Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued my report thereon dated January 24, 2006. Washington County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Washington County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Washington County Fiscal Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comments and recommendations as:

- 2005-1 - Lack of segregation of duties - Occupational license taxes

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider the reportable condition listed above to be a material weakness.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed the following instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

- 2005-2 - General Fund total expenditures budget overspent

This report is intended solely for the information and use of the Washington County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

*Noel C. Turner, PSC*

Harrodsburg, Kentucky

Audit fieldwork completed -  
January 24, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**WASHINGTON COUNTY FISCAL COURT**

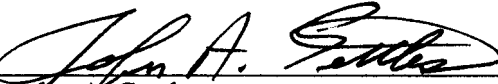
**For The Fiscal Year Ended  
June 30, 2005**



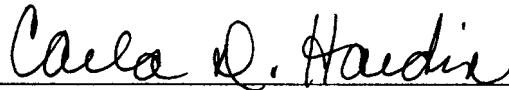
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
WASHINGTON COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2005

The Washington County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John A. Settles  
County Judge/Executive



Carla D. Hardin  
County Treasurer